

Oil processors reap windfalls

By Dave Anderton Deseret Morning News

874 words

22 October 2006

[Deseret Morning News](#)

A01

English

(c) 2006 Deseret News Publishing Co.

Utah's oil refineries are buying crude oil at bargain prices and reaping huge windfalls as the state's gasoline prices continue to remain among the highest in the nation, according to a Texas investment adviser.

A state investigation found earlier this month that **Utah** gasoline retailers were gouging the public. However, John Jurrius, a financial adviser to the Ute Indian Tribe, says the state's explanation is only part of the story.

He said black wax oil -- which is produced in the Uinta Basin on Ute Indian lands -- is being purchased for about \$46.76 a barrel, or about \$13 less than the October average of \$59.26 for oil traded on the New York Mercantile Exchange, according to a Flying J Co. Web site.

The lower prices paid for Utah's black wax oil are primarily a result of limited refinery capacity, Jurrius said, as Utah refiners choose to process Canadian oil rather than Utah's oil.

"That's not good for the state," Jurrius said. "And I think the state ought to be concerned about markets that aren't promoting state assets. This pipeline from Canada that was sold as being good for consumers is shutting down your local economy."

About 30 percent of Utah's crude oil comes from Canada, 15 percent from within the state and the rest from Colorado, Montana and Wyoming, according to the Utah Petroleum Association.

Roughly 17,000 barrels, or 10 percent of the total oil refined each day by Utah refiners, is black wax oil.

Calls by the Deseret Morning News to Lee Peacock, president of the Utah Petroleum Association, which represents Utah's five refineries, were not returned.

The lower price being paid for black wax oil has prompted Houston-based Newfield Exploration Co. to discontinue operations at 165 wells in the company's Monument Butte Field in eastern Utah. In addition, more than 400,000 barrels of oil already produced by the company will sit as inventory in the field, according to a news release issued last week. Newfield Exploration said it elected not to sell the 400,000 barrels of oil due to the lower prices being paid for black wax oil. But while producers are curtailing production, refineries are posting record profits.

Dallas-based Holly Corp., which operates a 26,000-barrels-per-day refinery in Woods Cross, said in filings with the U.S. Securities and Exchange Commission that its refinery gross profits amounted to \$22.37 per produced barrel in this year's second quarter, a 60 percent increase from \$14.02 a barrel in the same quarter in 2005. Holly also operates an 82,000-barrels-per-day refinery in New Mexico.

Meanwhile, the oil producers in eastern Utah are losing value and income, Jurrius said.

While crude oil prices may be set on a national and international stage, Jurrius said Utah refineries pay a lot less for the crude they process.

"No, they don't pay the price that is internationally set," Jurrius said. "They price based on what they can negotiate for." One refinery was paying \$12.90 less last week for crude than the price posted by the national stock exchange.

In some instances, Jurrius said, Utah refiners have paid nearly \$25 per barrel less for Canadian crude oil compared to the NYMEX commodity quotes.

"We hear consumers talking about why gas prices are higher than the national average," Jurrius said. "We're asking why they are higher when the commodity is considerably lower than the national price." The raw materials are costing less, but they are selling at a higher rate.

And millions are being made, he said.

Multiply that \$12.90 by 17,000 barrels of black wax, and someone is profiting by \$220,000 a day, Jurrius said. Over one year, that amount skyrockets.

"That's \$80 million of value that somebody put in their pocket," Jurrius said.

Francine Giani, executive director of the Utah Department of Commerce, headed a recent gas-price investigation ordered by Gov. Jon Huntsman Jr. She believes that Utah's refineries are making much more profit than Utah gasoline retailers.

"I think the refineries are partying," Giani said. "The refineries would not tell us what they are paying for crude. That's the secret of the day."

Black wax crude does require additional processing, Jurrius said, but historically the oil has seen only a \$2 to \$3 differential compared to NYMEX prices. Now, it appears, Canadian crude is crowding out Utah's black wax oil.

So why are Utah's gasoline prices so high if Utah refineries are buying crude at bargain prices? "The reason they can do it is that all of these numbers are so secretive," Giani said. "They essentially said, 'Kiss off.' We knew we weren't going to get the information because we didn't issue a criminal subpoena. They don't want consumers to know exactly how much they are making. Are we getting gouged? The answer is still yes."

On Friday, Utah gasoline prices averaged \$2.49, according to AAA -- 27 cents higher than the national average of \$2.22. Contributing: Lucinda Dillon Kinkead E-mail: danderton@desnews.com